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No.

IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1982

BAHIDJ B. SABOUNI, an individual,
SABOUNI AND ASSOCIATES,

Petitioner,

v.

JAMES M. LEAVER, et al.,

Respondents.

APPENDIX TO

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

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NOTE: For convenience these opinions have also been set forth at the appendix following petitioner's Petition for Certiorari. References in the Petition are to the page numbers in the appendix attached to the petition.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JAMES M. LEAVER, an indivi-)	
dual, and S-3 CONCRETE)	
PRODUCTS, INC., a)	
California corporation,)	
)	NO. 81-4128
Appellees,)	
)	DC No. CV-78-1185
vs.)	
)	
BAHIDJ B. SABOUNI, an in-)	<u>MEMORANDUM</u>
dividual, and SABOUNI)	
AND ASSOCIATES,)	
)	
Appellants.)	

Appeal from the United States District Court
For the Northern District of California
Robert P. Aguilar, District Judge, Presiding
Argued and submitted April 12, 1982

BEFORE: GOODWIN, FLETCHER and POOLE, Circuit Judge:

The business partner of a patent licensor
sued the licensor to have the patent declared
invalid, to rescind contracts the parties had
entered, to have the licensor found guilty of
fraud and to collect damages. Although it did not
find fraud, the jury otherwise held for the

plaintiff and awarded attorney's fees under one of the rescinded contracts. The defendant (Sabouni) appeals.

Sabouni owned Patent 3,247,294 (Patent '294) which covers a process for making concrete and concrete products. He licensed the patent to Astro-Stone and formed a separate partnership (S-3 Concrete Company) with Leaver to exploit the patent further.

Through his dealings with Sabouni, Leaver became aware that Astro-Stone was in financial difficulty. Leaver lent Astro-Stone substantial sums of money. When Astro-Stone continued to flounder, Leaver merged Astro-Stone into S-3 Concrete Products, of which he was president, and, as part of the take over, obtained a license of the '294 Patent from Sabouni.

Problems beset S-3 Concrete Products, and Leaver became convinced that they were traceable to the inoperability of Patent '294. As a result, he sued Sabouni and sought (1) to have the patent

declared invalid, (2) to have Sabouni's licensing agreements with Astro-Stone and S-3 and the partnership agreement between Leaver and Sabouni rescinded, (3) to have Sabouni found in breach of these contracts, (4) to have Sabouni found guilty of fraud, and (5) to have the agreements with Sabouni declared void.

Upon a motion by Leaver, the court appointed a magistrate as a special master to determine whether the patent was operable. The magistrate selected a professional testing expert who conducted tests proposed by each party. Although the results of the two tests were contradictory, the magistrate concluded that the plaintiff's test was the more reliable and that it proved Patent '294 inoperable. Sabouni's motions for appeal and for reconsideration on the ground that the plaintiff's tests did not perform the necessary step of water removal were denied.

After a lengthy trial, the jury, making a special finding of inoperability, found the patent

invalid, rescinded the agreements of sale of patent rights, and ordered the restitution of \$62,083. It also held the partnership agreement to have been breached and awarded \$36,000 damages. The agreements for sale of patent rights each provided for severable attorney's fees; the court awarded attorney's fees to Leaver of \$35,000 and, subsequently, of \$6,500 for work done in answer to Sabouni's post-trial motions.

Sabouni contends that rescission and restitution were inconsistent with the jury's breach of contract finding, and that he was entitled to retain his royalty payments. He also argues that the special master's report was incorrectly admitted and that the jury instruction concerning the report created reversible error.

1. Contract Remedies

Leaver sued on several separate agreements: the agreement of sale of patent rights between Sabouni and Astro-Stone with an accompanying security agreement, the agreement of sale of

patent rights between Sabouni and S-3, and the partnership agreement between Sabouni and Leaver.

The jury held only the agreements of sale of patent rights to be rescinded while finding the partnership agreement to be breached with resultant damages of \$36,000. The jury did not, as Sabouni contends, award damages for breach of the same contract it had already found to be rescinded.

Sabouni also contends that the \$36,000 should be returned to him because it represents his consulting fees under separate consulting agreements. However, the consulting services performed by Sabouni were worth little or nothing except insofar as they were rendered as part of the overall partnership agreement. This partnership agreement was formed for the primary purpose of promoting Patent '294, and the jury found that the failure by Sabouni to deliver a valid patent constituted a breach of the agreement. Therefore, Leaver was properly awarded

his expectancy damages for breach of the partnership contract, which the jury measured by the amount Leaver had expended to promote the invalid patent.

2. Patent Royalties

The jury ordered the agreements for sale of patent rights rescinded, and ordered the restitution of \$62,083 paid by Leaver to Sabouni. Sabouni now urges that these payments be characterized as royalty payments that are not subject to restitution upon contractual rescission, citing St. Regis Paper Co. v. Royal Industries, 525 F.2d 309, 312-324 (9th Cir.) cert. denied, 434 U.S. 996 (1977). Sabouni's argument is unconvincing. The jury had ample evidence from which it could properly find that the \$62,083 paid by Leaver was consideration for an installment sale of patent license rights by Sabouni and not royalties for the use of Sabouni's patent. Restitution of such payments on the contract of sale was a proper remedy in conjunction with the

rescission of the contract ordered by the jury.

3. Special Master's Report

Sabouni asserts that the trial court erred when it admitted the special master's report in evidence because the master had exceeded the scope of his authority and because the tests on which the report was based had omitted a critical step in the patent process. However, Sabouni's presentation to the jury of the circumstances surrounding the testing was not hampered. The testing expert had been subject to Sabouni's cross-examination. Thus, whether or not the special master's report may have exceeded the scope of the assignment, the evidence it contained was not prejudicial.

4. Jury Instructions

Sabouni claims the jury instructions were confusing because they implied that the jury was bound by the special master's report. The instructions, however, clearly stated that the jury was free to give the report whatever weight

it deemed appropriate.

5. Invalidity of Patent '294

Sabouni also challenges the finding of invalidity of Patent '294. Both Astro-Stone and S-3 experienced great difficulty with the concrete process. The court-appointed expert's tests were consistent with other evidence showing the inoperability of the process. Under these circumstances, a reasonable trier of fact could have found Patent '294 invalid.

6. Attorney's Fees

Sabouni also argues that the jury awarded attorney's fees on the basis of an attorney's fees clause in the agreements it held were rescinded. Ordinarily, a party may not claim the benefits of a rescinded contract. 55 Cal.Jur.3d, Restitution, section 99. We therefore remand for a statement of reasons for the award of attorney's fees.

The trial court's findings of patent invalidity, rescission and restitution under the patent rights contracts and damages resulting from

the breach of the partnership agreement are affirmed.

Affirmed in part; remanded for further proceedings on attorney fees.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JAMES M. LEAVER, an indivi-)
dual, and S-3 CONCRETE)
PRODUCTS, INC., a)
California corporation,)

Appellees,)

vs.)

BAHIDJ B. SABOUNI, an in-)
dividual, and SABOUNI)
AND ASSOCIATES,)

Appellants.)

NO. 81-4128

DC 78-1185 RPA

ORDER

Before: GOODWIN, FLETCHER and POOLE, Circuit Judges

Appellees' petition for rehearing filed
December 9, 1982, and appellants' petition for
rehearing filed December 15, 1982, are denied.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Plaintiffs,

vs.

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Defendants.

Civil Action
No. C-78-1185 RPA

JUDGMENT

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Counterclaimants,

vs.

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Counterdefendants.

This action came on for trial before this Court and a jury, the Honorable Robert P. Aguilar,

presiding, and the issues having been duly tried and the jury having returned its verdict, said verdict being the true and unanimous verdict of the jury in the above-captioned case, and the Court having determined there being no reason that judgment should not be entered in accordance with the jury verdicts:

IT IS HEREBY ORDERED AND ADJUDGED:

1. That the plaintiffs JAMES M. LEAVER and S-3 CONCRETE PRODUCTS, INC., recover of the defendants BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES the sum of Ninety-Eight Thousand and Eighty-Three Dollars and no/100 (\$98,083.00) with interest thereon at the rate of seven percent (7%) as provided by law from the date of this judgment until paid.

2. That U.S. Letters Patent 3,247,294 issued to BAHIDJ B. SABOUNI is found to be invalid because said Letters Patent is both:

(a) Inoperable

(b) Obvious

3. That the fraud cause of action of plaintiffs JAMES M. LEAVER and S-3 CONCETE PRODUCTS, INC., against BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES is hereby dismissed on the merits.

4. That all the counterclaims of the counterclaimants BAHIDJ B. SABOUNI and SABOUNI AND ASSOCIATES against counterdefendants JAMES M. LEAVER and S-3 CONCRETE PRODUCTS, INC., are hereby dismissed on the merits.

5. The plaintiffs are entitled to taxable costs.

6. The Court, upon subsequent motion of plaintiffs, will determine such reasonable attorney's fees that shall be awarded to plaintiffs under the agreements providing for the same.

Date: December 11, 1980

ROBERT P. AGUILAR

UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,)	
)	
)	
)	C-78-1185 RPA
)	
Plaintiffs and Counterdefendants,)	
)	
vs.)	ORDER
)	
BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,)	
)	
)	
)	
Defendants and Counterclaimants,)	
)	

The following motions came on for hearing before this Court on February 19, 1981:

1. Defendants' motion for new trial;
2. Defendants' motion to retax costs;
3. Plaintiffs' cross motion for additional costs;
4. Plaintiffs' motion to vacate stay of execution of judgment;
5. Plaintiffs' motion for order enjoining

defendants from disposing of assets; and

6. Plaintiffs' motion for attorneys fees.

The Court having carefully considered the pleadings and documents on file herein and the arguments of counsel,

IT IS HEREBY ORDERED that:

The defendants' motion for a new trial is denied;

The defendants' motion to retax costs is denied;

Plaintiffs' motion to vacate the stay of execution of judgment is denied; and

Plaintiffs' motion for an order enjoining defendants from disposing of assets is granted. Specifically, defendants are enjoined from selling, conveying, disposing of, hypothecating or otherwise giving away any of the property in which they have an interest, be it real, or personal, or any chose in action wherever located and of whatever character or nature, be it separate property or community property.

In regard to plaintiffs' motion for attorneys' fees, the Court has studied the twelve factors enunciated by the Ninth Circuit in Kerr v. Screen Extras Guild, Inc., 526 F.2d 67 (9th Cir. 1976), and HEREBY ORDERS that defendants pay to plaintiffs' counsel as reasonable attorneys' fees the sum of Thirty-Five Thousand Dollars (\$35,000).
DATED: February 27, 1981.

ROBERT P. AGUILAR
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, et al.,)	
)	
Plaintiffs,)	
)	
vs.)	No. C-78-1185-ACW
)	
BAHIDJ B. SABOUNI, et al.,)	
)	
Defendants.)	
<hr/>		
)	<u>ORDER</u>
BAHIDJ B. SABOUNI, et al.,)	
)	
Counterclaimants,)	
)	
JAMES M. LEAVER, et al.,)	
)	
Counterdefendants.)	
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Defendants move for reconsideration by the Magistrate of his Special Master Report filed February 25, 1980 and of the proposed Findings and Conclusions attached as Enclosure 1 thereto. This motion was opposed by written memo to which defendants filed a subsequent reply.

Having presided over the hearings which are the subject of the challenged Report, and having

studied the written materials in support of the position taken by opposing counsel, I ordered the matter submitted without oral argument as provided for by Local Rule 220-1.

THE MOTION IS DENIED.

I am satisfied that my Report reflects my considered views and I find no basis for making any changes or taking any of the actions urged by defendant.

If, however, the District Court on appeal is of a contrary view and believes the Special Master should conduct further testing, then it should be ordered under the following terms and conditions.

1. The Special Master should be provided with a copy of the patent in question.

2. The District Court should direct the Special Master to conduct whatever tests he feels necessary to determine operability.

3. The defendant should be directed to bear all costs of testing, and employment of

experts as directed by the Special Master. These costs may or may not be taxable, depending on the ultimate outcome of the trial.

If this were to be ordered, it would be my intention to employ a qualified member of the patents bar to serve as the Court's impartial expert. This expert, unhampered by any acts, conduct or direction by any party or attorney to this litigation, would coordinate testing by some competent laboratory and would file a report and conclusions.

I agree that the work done so far under the order of reference is replete with variables introduced by the parties and later compensated for by other evidence. I also agree that it is not easy to read the record and isolate clear factual recitations that lead unerringly to but a single conclusion. Nevertheless, the Special Master sifted conflicting evidence, accepted some, rejected other and reached a final result. As is

always the case where evidence is in conflict, the minds of reasonable men may differ. I completed my work under the order of reference. I don't intend to change it. It is now ready for appeal.

Respectfully submitted,

OWEN E. WOODRUFF, JR.
United States Magistrate

Dated: April 18, 1980

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Plaintiffs,

vs.

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Defendants.

No. C-78-1185 ACW

BAHIDJ B. SABOUNI, an individual, and SABOUNI AND ASSOCIATES,

Counterclaimants,

vs.

JAMES M. LEAVER, an individual, and S-3 CONCRETE PRODUCTS, INC., a California corporation,

Counterdefendants.

ORDER DENYING DEFENDANT'S MOTION FOR RECONSIDERATION OF SPECIAL MASTER'S REPORT

Defendant Bahidj B. Sabouni has moved the Court to set aside the Special Master's Report,

dated February 25, 1980. The issue has been fully briefed. The defendant's motion is denied.

This case involves the validity of a process patent and the enforcement of rights arising from the assignment of that patent. By Stipulation and Order of Reference, dated July 23, 1979, the matter was referred to Magistrate Woodruff to act as a master under Rule 53 of the Federal Rules of Civil Procedure and Rule 410 of the Local Rules of the U.S. District Court for the Northern District of California. The parties stipulated that:

The supervision of tests as to the operability of the process disclosed and claimed in the U.S. Letters 3,247,294 shall be referred to Magistrate Owen Woodruff.... Magistrate Woodruff shall be charged with setting up and supervising tests of the operability of the patent, and to report his findings to the Court in the manner provided for reports in jury actions. The parties shall propose tests and procedures and suggest testing facilities, and the Magistrate shall, whenever reasonably possible, conduct such special tests as requested by a party. The Magistrate shall report the results of all tests and his conclusions to the Court and the parties.

The tests proposed by both parties were

conducted by the court-appointed expert, Mr. Loren K. Salladay of Testing and Controls, Inc., and a hearing on this evidence was held before Magistrate Woodruff. On February 23, 1980, the master filed his report. Magistrate Woodruff concluded:

It would appear that Mr. Salladay's testimony is contradictory as the questions posed by plaintiff's counsel lead the expert to the conclusion that the patent is inoperable. On the other hand, questions asked by counsel for the defendant of the same witness and based on different test data would lead to the conclusion that the patent is operable.

Therefore, it becomes the duty of the Magistrate to analyze the tests performed in the light of the language of the patent and make a determination as to which set of tests performed by the expert are most valid in testing the operability of the invention.

After a careful review of the evidence before the court, together with briefs of counsel, I have concluded that the plaintiff's tests are not only more reliable but provide a basis on which the Magistrate can find that the presumption of operability of this process patent has been overcome.

The Magistrate also adopted the plaintiff's

proposed findings and conclusions: On April 17, 1980, Magistrate Woodruff denied defendant's motion for reconsideration.

Defendant now moves, by a motion labeled "Motion for Reconsideration of Report of Special Master," that the Report and Findings be set aside in their entirety, and that evidence of the tests conducted under the Reference be admitted — item by item — at trial. As to the latter request, no motion is necessary. The parties are free to introduce any otherwise admissible evidence -- including evidence regarding the Salladay-conducted tests -- at trial. See Crateo, Inc. v. Intermark, Inc., 536 F.2d 862, 868 (9th Cir.), cert. denied. 429 U.S. 907 (1976); Eastern Fireproofing Co. v. United States Gypsum, 50 F.R.D. 140 142 (D. Mass. 1970); Connecticut Importing Co. v. Frankfort Distilleries, 42 F.Supp. 225, 227 (D.Conn. 1940). The motion to set aside the entire Master's Report and Findings is hereby denied.

Defendant's objections to the Report can be classed into three categories: 1) erroneous conclusions regarding the tests and the patent's operability; 2) improper admission of certain documentary evidence; and 3) inclusion of improper discussions of the evidence and conclusions of law in the Master's Findings. Only the first objection is a possible basis for setting aside the entire Report. The other alleged errors in the Report can be easily remedied, if necessary, by deleting objectionable portions of the Report and Findings, upon the appropriate motions of the parties, before they are read to the jury. See FED. R. CIV. PROC. 53(e)(3); Connecticut Importing Co., supra, 42 F.Supp. at 227.

Defendant claims that the master was "clearly erroneous" in concluding that plaintiff's tests proved the patent's inoperability and that defendant's test did not prove the opposite. Since the jury will be the ultimate judge of the master's conclusions in its role as finder of fact,

the Court will weigh the sufficiency of the evidence supporting the master's findings of fact by the more deferential "substantial evidence" test. See Eastern Fireproofing Co., 50 F.R.D. at 143. Compare FED. R. CIV. PRO. 53(e)(2). Judged by this standard, the master's conclusions regarding the test results must be upheld. The Court is satisfied that these conclusions are supported by substantial evidence, and hence not unreasonable.

ACCORDINGLY, IT IS HEREBY ORDERED that defendant's motion for reconsideration of the Special Master's Report is DENIED without prejudice to the parties' right to raise specific objection to particular portions of the Report and Findings before or at trial if they are unable to stipulate to an edited version of the Report and Findings to be read to the jury. See Connecticut Importing Co., 42 F.Supp. at 227. The Court

encourages that any such motions be made before trial to facilitate its own review.

DATED: July 30, 1980.

ALBERT C. WOLLENBERG
United States District Judge